

Kentucky Wine Market Feasibility Assessment

Final Report

Prepared for
The Kentucky Vineyard Society

An MKF Research Report

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Executive Summary

- Kentucky's wine industry began when Jean Jacques Dufour planted the first commercial vineyard in the United States in Jessamine County, Kentucky in 1798. Kentucky enjoyed viticultural success until 1920 following the enactment of Prohibition. Thirteen years passed until its repeal, but by that time other crops had replaced Kentucky's vineyards and its wine industry was lost. After a number of false starts, Kentucky is now reestablishing its vineyards and wineries with the intent of creating a sustainable industry into the future.
- There are currently about 150 wine grape growers in Kentucky cultivating 215.3 acres of vineyards, enough to yield 142,000 gallons (just under 60,000 nine-liter cases) of wine. 47% of vineyard area is planted to *vitis vinifera* varieties, with Cabernet Sauvignon the most widely planted of all varieties with almost 25 acres under vine. Many of Kentucky's grape growers are new to viticulture, therefore a failure rate of as much as 50-75% should be expected as they move up the learning curve.
- Current grape plantings outpace winery demand even assuming a significant failure rate. It is not recommended that any funding be allocated to additional plantings. However, winery demand is strong for high quality grapes; funding should be appropriated to education to ensure that current plantings meet with vintner quality standards.
- The average reported price per ton for all Kentucky-grown wine grape varieties in 2001 was \$1009. Prices ranged from \$500 per ton for labrusca to \$1550 for vinifera varieties. This is on par with grape prices in adjacent states.
- 83% of Kentucky's grape growers either currently grow tobacco on their farm or have done so within the last five years. Survey responses from these growers indicated that viticulture is more labor and capital intensive than tobacco cultivation.
- As of the 2001 harvest, there are 8 wineries in Kentucky producing wine from grapes (as opposed to other fruit) for commercial sale. Total production for these wineries for the 2001 harvest was over 4700 cases. Wineries anticipate an increase of 70% for the 2002 harvest to just over 8000 cases of wine.
- By 2007, Kentucky wineries expect to grow their volume to just under 34,000 cases, which would account for approximately 2% of all Kentucky wine sales.
- The average price for a bottle of Kentucky wine is \$12.26. Among the wines which Kentucky vintners feel best express Kentucky's terroir and which showcase their winemaking skills are Cabernet Sauvignon, Seyval Blanc, Vidal Blanc, and Traminette.
- Kentucky is on track to develop a small to medium scale wine industry in the near term. Major hurdles to this development are inexperienced growers facing difficult growing conditions for grapevines, coupled with a significant lack of winemaking knowledge among Kentucky's current wineries.

- Because of the current phase of growth of the Kentucky wine industry and because Kentucky's wineries anticipate achieving only moderate production levels in the near term, a tourist-based winery-direct distribution model is the most profitable and sustainable foundation upon which the industry can continue to grow into the long term.
- There are significant legal obstacles in the way of Kentucky's wine industry involving operating hours, signage, shipping restrictions, and limitations on certain types of wine production. In addition, the issue of "dry" counties in which alcohol cannot be sold limits local distribution for Kentucky's wineries. 75 of Kentucky's 120 counties are dry.
- Quality varies among Kentucky's wines. After a representative tasting of wines produced by Kentucky wineries, those judged to be superior are made exclusively from Kentucky-grown grapes. Kentucky has the potential to produce world-class wines.
- Awareness of Kentucky wines is low among consumers. However, our research indicates that more than one-third of wine drinkers in Kentucky and adjacent states are willing to buy a bottle of \$20 Kentucky wine, especially if it is made from an obscure varietal.
- Bourbon drinkers in Kentucky and adjacent states are also wine drinkers, and are more amenable to the idea of quality wine from Kentucky than non-Bourbon drinkers. Kentucky's wine industry should seek to create joint opportunities for promotions and sales with distilleries.
- Among the recommendations for investments required for long-term sustainability of Kentucky's wine industry are the hiring of a State Enologist and a State Viticulturalist to assist Kentucky's vintners and growers. The main purpose of these positions is to ensure quality from the vineyard to the bottle.
- The newly established Kentucky Grape and Wine Council should focus on the marketing and promotion of Kentucky wines. Its resources will be best spent on developing a Kentucky Wine statewide branding strategy.
- Because the most likely scenario for the success of the Kentucky wine industry is a tourist-based distribution model, Kentucky's Tourism Cabinet should work closely with the Kentucky Wine and Grape Council when planning future investments in tourism infrastructure.
- Kentucky's wine industry will be required to act creatively to overcome its challenges – but investments of time, labor and resources are likely to produce returns for those in the industry as well as for the state of Kentucky. By planting vineyards and producing superior quality wines, the wine industry will contribute to the Commonwealth's rich agricultural tradition and will draw more people to its beautiful countryside.

About Motto Kryla Fisher, LLP

Founded in 1982, **MKF** is the **only** consulting and accounting firm devoted exclusively to the premium wine industry. In addition to our professional experience as CPA's and business consultants, our advisors offer a depth of expertise through diverse academic and working backgrounds in the wine and vineyard industry. Because of our heavy investment in research on wine business issues and trends, our experts are broadly published in wine industry publications, are invited to teach wine business seminars and university courses, and are asked to consult with government and trade groups.

MKF Research is the economic and wine market research division of Motto Kryla Fisher, LLP and is a leading research source on the U.S. wine industry. **MKF** conducts original research on wine market trends and publishes a number of industry economic studies.

MKF Custom Research consults with individual wine companies and associated industries in areas including wine market trends, performance evaluations, and sales channel management. By leveraging information in the wine industry's only comprehensive database model of high-end winery performance – **Wine Trends** – we are able to help companies assess their past performance and assist them in identifying opportunities. The firm also conducts industry as well as private company seminars on its research work.

MKF Syndicated Research publications include:

Economic Impact of California Wine

The first comprehensive study of the full economic impact of the California wine industry

Washington Wine Impact Study

The first economic impact study of the Washington Wine Industry

Economic Impact of Santa Barbara County Wine

Comprehensive report of the economic impact of the Santa Barbara County wine industry

Wine Trends

Data and analysis of shipments of all California wine by major varietal, price segment, and market

Grape Trends

Supply and demand forecasts and history for the major California premium wine grape varieties

U.S. Wine Demographics

U.S. wine consumption trends, demographics, consumer spending habits, wine advertising

International Report

Exports of U.S. wine, imports of wine to the U.S., international economic and demographic data

U.S. Winestats

U.S. wine shipment and macroeconomic statistics by state

Vineyard Economics

Detailed cost study and analysis of business issues in growing premium wine grapes

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